President's Report

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President & Chief Executive Officer

November 30, 2006

Outline

- Summary of FY 2006
  - Hard spots
  - Highlights
  - Performance
- Expectations for FY 2007
  - Financial
  - Challenges and Opportunities
  - FY07 to Date

FY 2006 Hard Spots

Financial

- Fuel expenses were $395 Million* over planned
- Purchased Power expenses were $134 Million* over planned
- TVA generated 78.3 KWh per dollar spent (13 % under planned)

Operations

- Asset availability lower than expected due to forced outages at several major generating units
- Some forced outages during the peak summer season
- Dry weather reduced low-cost hydro generation to 75% of normal

Customers

- Industrial customer satisfaction lags distributor customers
- Six TVA distributors are still in “noticed” status

People

- Fatal accident at John Sevier Fossil Plant

*Un-audited results

FY 2006 Highlights

Financial

- Total operating revenues of more than $9.18 billion*
- Total sales of electricity of 176,400 GWh*
- Net income of $310 million*

Operations

- All time peak July 18 -- 32,008 MW (16 out of top 20 in 2006)
- Transmission reliability achieved 99.999% for the seventh year
- Sequoyah Nuclear Plant generated the most power in its history
- NOx emissions were the lowest since 1995

Customers

- Bristol Virginia Utilities signed a 20-year contract with TVA
- Rate reduction was approved in conjunction with an FCA

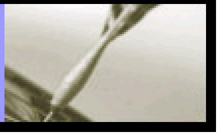
People

- Low recordable injury rate (excluding fatality)
- Sequoyah U1 marked 25 years of safe operation on July 1
- TVA-wide cultural health index better than previous years

*Un-audited results

Overall Performance Results

Winning Performance



TVA Balanced Scorecard for September 2006

	Weight	Status	Actual YTD	Plan YTD	Year End Forecast	GOALS Target	GOALS Mid	GOALS Stretch
Financial								
Net Cash Flow($ millions)	20%	↓	393	394	393	394	456	548
Financial Strength / Reduction in TFO*($ millions)	15%	↑	341	340	341	340	420	500
Productivity(KWhs/$)	10%	↓	78.3	93.0	78.3	93.0	94.8	96.7
Customer								
Customer Impact (CPI+CSS)** (percent)	10%	↑	111.2	100.0	111.2	100.0	101.7	108.1
Economic Development(index)	10%	↑	123	100	123	100	110	120
Operations								
Asset Availability (GWh Available/GWh Planned)(ratio)	15%	↓	99	100	99	100	101	102
Environmental Impact*** (index)	10%	↓	72	66	72	66	60	55
People								
Safe Workplace****(recordable injuries/ hrs. worked)	10%	↓	1.43	1.82	1.43	1.82	1.64	1.55

Financial Performance Indicators

		2002	2003	2004	2005	2006 Unaudited
1	Average Revenue (¢/kWh sold)	4.28	4.30	4.54	4.54	5.20
2	Total Financing Obligations per kW ($)	819	826	780	753	742
3	Net Interest Expense (¢/kWh sold)	0.90	0.84	0.79	0.72	0.69
4	Interest Coverage	1.90x	2.17x	2.22x	2.01x	2.40x
5	O&M (¢/kWh sold)	1.17	1.26	1.40	1.38	1.39
6	Capital Expenditures per kW ($)	39	53	47	39	41

Notes:

- All figures are as of or for the fiscal years ending September 30, as indicated.
- Capacity-related calculations based on TVA owned and contracted winter dependable capacity.
- Cash flow from operations for 2004 excludes proceeds from MLGW financing, which were accounted for as cash from operations rather than cash from financing activities.
- Interest coverage defined as (Cash Flow from Operations + Interest on Debt) / Interest on Debt

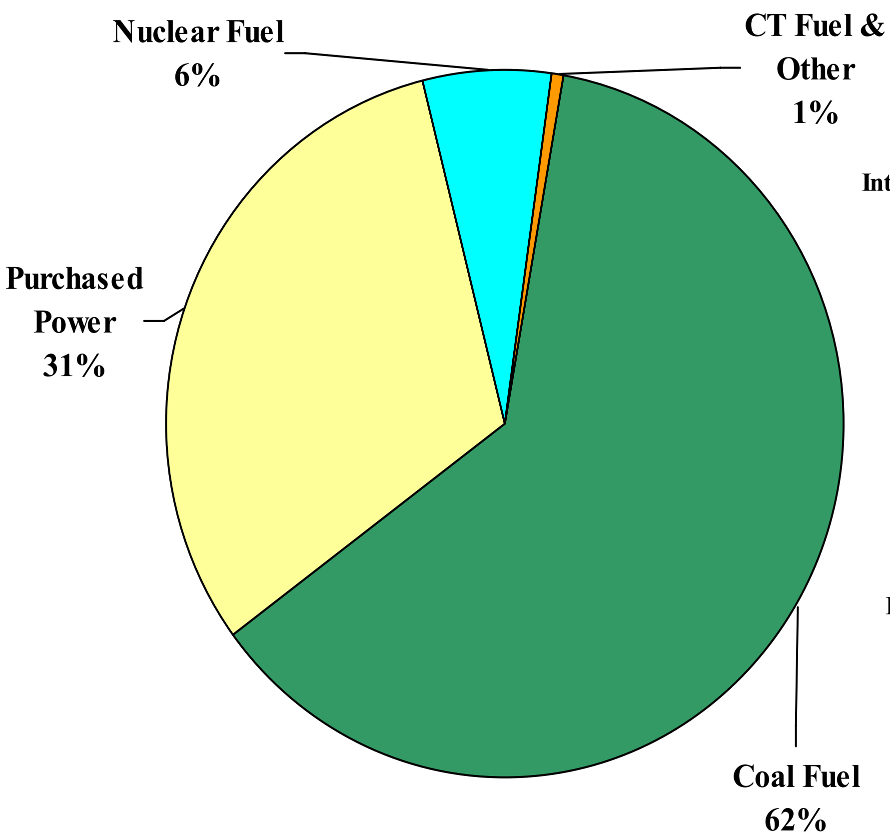
FY 2007

Expectations for FY2007

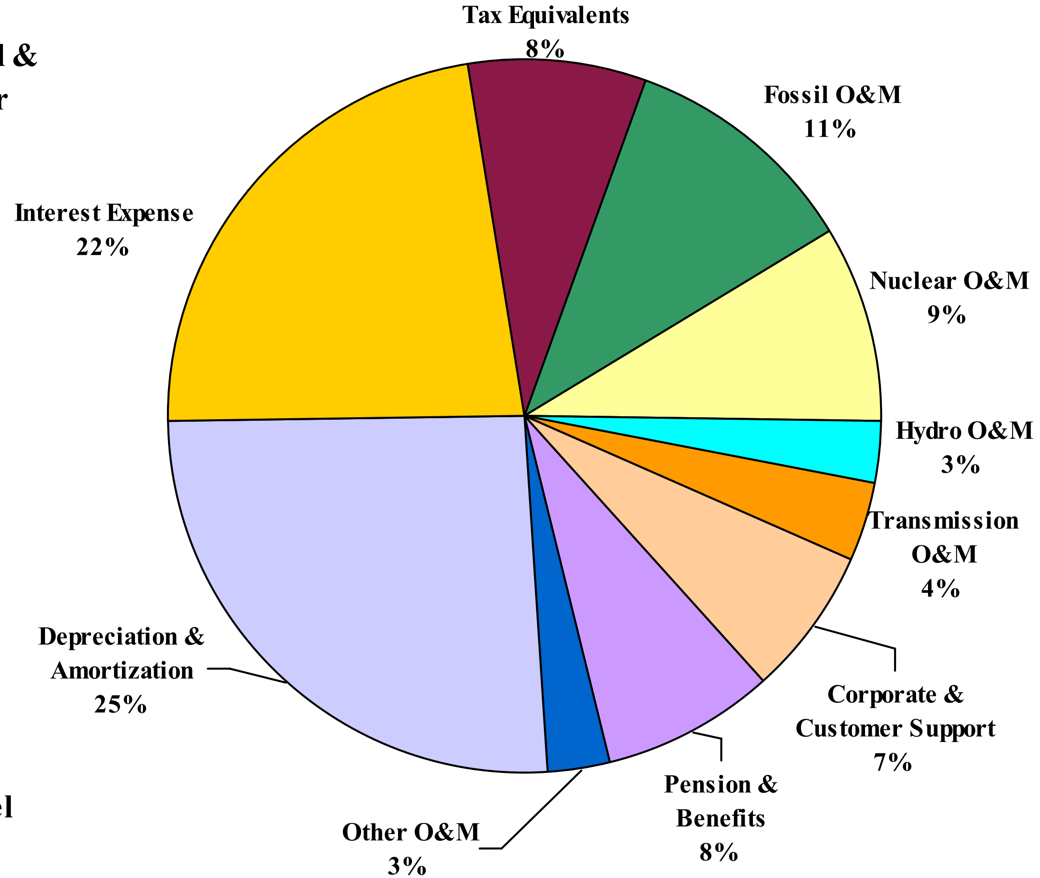
- **Energy sales of 174,800 GWh (-0.9% of FY06)**
- **Revenues of approximately $9.2 billion after firm rate reduction of 4.5%**
- **Fuel and purchased power costs expected to be approximately $3.2 billion**
- **Non-fuel operating costs constrained to the level of growth in KWh sales**
- **$529 million budgeted reduction of Total Financing Obligations**
- **Browns Ferry Unit 1 restart by May 22, 2007, and an operational capacity factor of 89% for the rest of FY 2007**

FY 2007 Fuel and O&M Expense

Fuel and Purchased Power Expense
$3,262 million

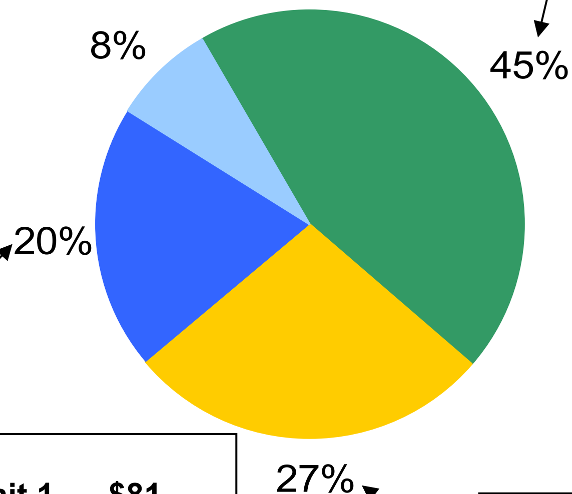


Other Expense Categories
$5,540 million



FY 2007 Capital Expense

Projects to preserve and prolong the use of current long-lived assets.



(in millions)

Asset Preservation	$ 523
Regulatory Compliance	$ 320
Growth	$ 234
Future Generation	$ 90
Total	**$ 1,167**

Growth Capital:

Browns Ferry Unit 1	**$81**
Capacity Uprates	**64**
Transmission	**41**
Economic	**48**
Total	**$234**

Regulatory:

Clean Air	**$286**
Safety	**10**
Regulatory	**23**
Total	**$320**

Note: Percent distribution based on 4.5% rate reduction

Challenges and Opportunities

Financial

- Improve efforts to control costs and increase efficiencies
- Completion and implementation of new Strategic Plan
- Find balance between increased financial flexibility and the need for additional generation

Operational

- Increase asset availability especially during times of peak demand
- Complete the Browns Ferry Unit 1 restart and BFN up-rate
- Address TVA's growth in demand and need for additional generation (Watts Bar 2 ?, Bellefonte?, new coal?, other?)

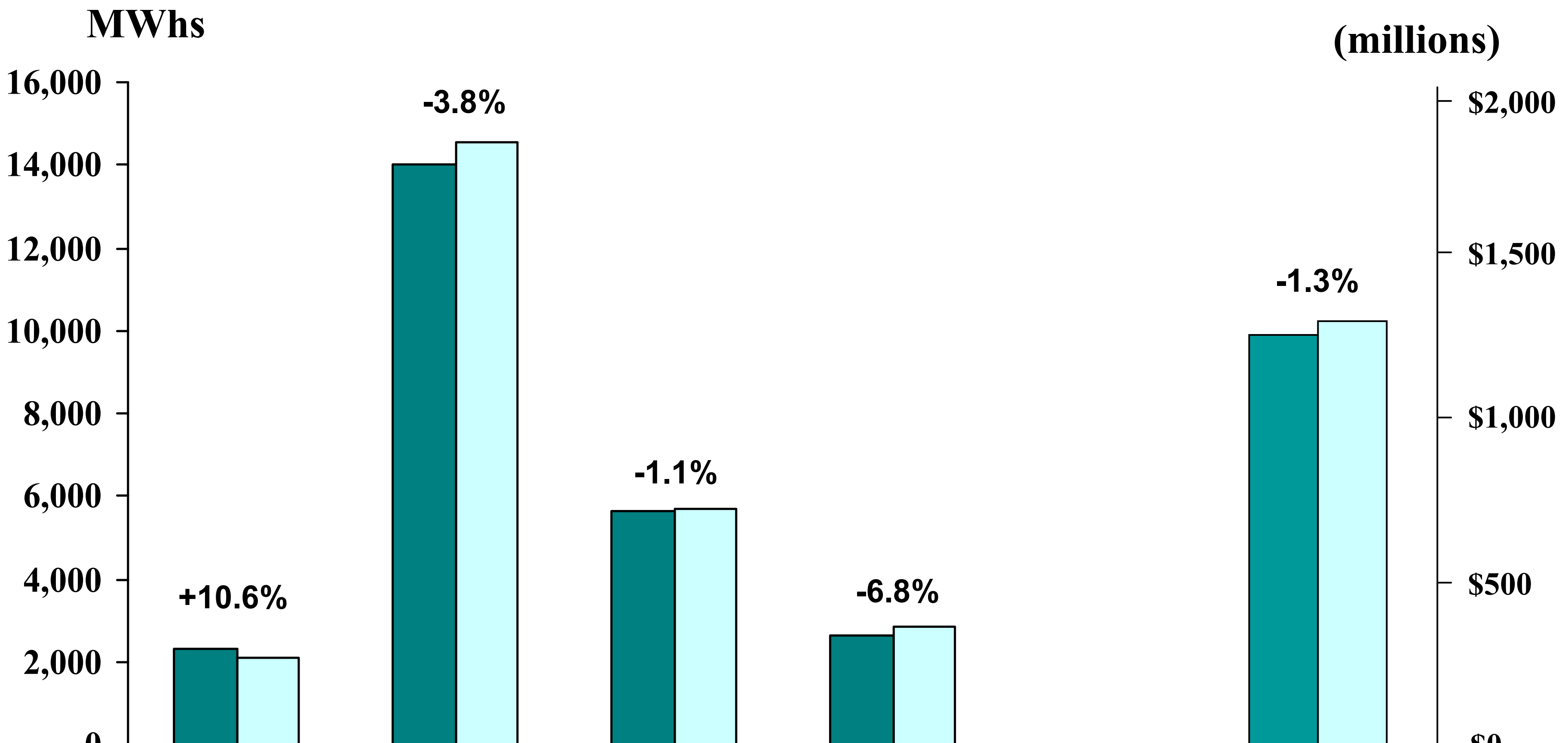
Customer

- Continue collaboration with customers to improve long-term options for TVA and its customers

People

- Continue to emphasize safety in all activities
- Manage the retirement/attrition
- Improved productivity

FY 2007 Year-To-Date Performance



	Hydro Generation	Fossil Generation	Nuclear Generation	Purchased Power		Power Sales
Estimate	2,301	14,011	5,646	2,638		$1,248
Plan	2,080	14,565	5,707	2,829		$1,265